

# PERSpectives

Second Quarter 2003

Public Employee Retirement System of Idaho

## Chairman named to national task force



**Jody B. Olson**

PERSI Board Chairman Jody B. Olson, has been named to the Council of Institutional Investors (CII) and the National Association of Corporate Directors (NACD) joint Task Force on Improving Director-Shareholder Communication.

"I am excited to join with representatives from other large pension funds including California, New York, General Motors, Ford, General Electric, etc. to try to improve investor confidence in the Boards of Directors of publicly-traded corporations," said Olson.

The task force aims to investigate barriers to director-shareholder communication and to see how some companies and directors have overcome them. It will collect examples of successful strategies used by companies or shareholders, and issue recommendations or "best practices" based on its findings.

"One of the challenges facing financial markets today is a lack of investor confidence. Improved investor confidence will in turn benefit public pension funds such as PERSI due to increased investment returns," said Olson. ◆

## PERSI member receives prison time for fraud

On March 11, 2003, a former state employee was sentenced to prison for committing fraud in connection with obtaining PERSI disability retirement benefits. J. M. "S" of Boise was found guilty in federal court of three counts of mail fraud for submitting false information to PERSI. She was also found guilty of fifty counts of wire fraud in connection with obtaining Social Security benefits.

Ms. S was charged after a joint investigation by the Idaho Attorney General's Office and the Social Security Administration's Office of Inspector General. The investigations were initiated after PERSI received information that her representations to PERSI concerning her alleged disability were incomplete and false. Based in part on those representations, Ms. S had been receiving disability retirement benefits.

Ms. S was sentenced to 21 months in federal prison and ordered to pay restitution to PERSI of over \$77,000, and over \$75,000 to the Social Security Administration. She also must pay an assessment of \$5,300 and will be on probation for three years after she is released from prison.

To protect plan assets, PERSI pursues all credible information that might indicate fraudulent activity in connection with PERSI benefits. ◆

## PERSI to begin Customer Satisfaction surveying

How are we doing? We really want to know what you think. Within the next few weeks, PERSI will begin a new on-going customer service satisfaction program.

We would like to determine how you perceive our service levels and what new services you might like. From your input, we will establish goals and plans for improving service.

PERSI has contracted with Clearwater Research of Boise to

administer the program. Clearwater will collect and tabulate all answers and will keep information strictly confidential, so you are free to be as honest in your answers as you wish.

We realize that you're busy, and we do not wish to take up your valuable time, but if you receive a survey in the mail, we would appreciate your participation in the program. We sincerely wish to improve our services to you, and believe these surveys will assist us to that end. ◆

# Choice Plan 401(k) Frequent

In the last issue of **PERSpectives** we started a list of Choice Plan FAQs. Here we continue those.

## Can I roll money from my current 457 or 403(b) plan into the Choice Plan?

If you are still working for the employer who is sponsoring the plan, you may not roll the money out of that plan. Upon termination or retirement from that employer, you may roll the money to the 401(k).

## Can I roll money from an IRA into the PERSI Choice Plan?

Yes, if the IRA is from pre-tax money. You will have to certify that the funds are pre-tax. If the distribution includes any after-tax dollars, that money will be considered pre-tax and will be reported as such upon distribution (meaning taxes will be paid again on the after-tax dollars).

## Why would I want to roll my IRA or other plans into the 401(k)?

The PERSI Choice Plan offers a diverse selection of funds. The funds are no-load funds and the management fees are considered nominal and are much less than those charged by most funds in traditional IRAs. In fact, you are not charged any management fees if you invest in the PERSI Total Return Fund because PERSI pays those fees for you. Many IRAs and other eligible plans not only charge higher management fees, but also include front-end load, back-end load, and 12b-1 fees, all of which will lower your potential earnings.

## What are no-load, front-end load, back-end load, and 12b-1 fees?

**No-Load** - Funds that do not charge any front-end or back-end loads.

**Front-End Load** - A sales commission levied up front when you purchases fund shares.

**Back-End Load** - Sales commission levied when shares are redeemed.

**12b-1** - A charge to cover marketing and distribution expenses. These fees are assessed annually and may not exceed .025 percent of average net assets in a no-load fund.

## Can I put my spouse's retirement plan or IRA in the Choice Plan?

No. The IRS considers your account separate from your spouse's and the money may not be mixed. Exception: If your spouse dies and you are a spouse beneficiary, you may roll the money into the Choice Plan.

## Can I get a hardship withdrawal?

If you are eligible for a regular loan from your 401(k), you must first do that to get money from the plan. If you already have an outstanding loan, or if you do not qualify, you may apply for a hardship withdrawal. You may request a hardship only from your voluntary pre-tax contributions. Earnings, rollovers, Gain Sharing, and employer contributions are not eligible for hardship payments.

A hardship is only available for:

- Payment of medical bills above what insurance covers.
- College tuition and costs for you or your immediate family.
- To prevent foreclosure or eviction from your primary residence.
- Purchase of a primary residence.

## What are the downsides to a hardship distribution?

You may not contribute to the 401(k) for six months after your hardship.

Mellon HR Solutions will hold out 10% of the distribution for federal taxes unless you request a different amount on the application. You will receive a 1099R form from Mellon, and depending upon your tax bracket, you may owe more at the time you file your tax return. Also, you may be responsible for a 10% penalty if you are under 59 1/2 years of age.

## Can I use my Choice Plan money to buy back service in the PERSI Base Plan while I'm still employed?

Yes. This is an excellent way to buy back your service using tax-deferred money. You may transfer money with no tax consequences from the Choice Plan to the Base Plan to buy back service, a waiting period, or pay delinquent contributions. Contact PERSI to request: a Payment Agreement, a Choice Plan Request for In-Service Transfer of Funds (Form V) and an In-Service Transfer Verification (Form IVb). If you have already started making buyback payments through payroll deduction, you are not eligible for this transfer.

## Can I use 457 or 403(b) money to buy back service in the Base Plan while I'm still working?

Yes. Contact your 457 or 403(b) plan administrator to obtain the paperwork they require and then complete a PERSI In-Service Transfer Verification (Form IVb) and Payment Agreement (Form 116).



Choice Plan

Toll-free

[www.persi.org](http://www.persi.org)

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# Frequently Asked Questions (FAQs)

## **If I quit working for a PERSI employer but don't retire, can I use 401(k), 403(b), IRA or 457 funds to buy back Base Plan service?**

Yes, but only if the buyback is for a waiting period or delinquent contributions. You cannot buy back a separation unless you initiate that buyback before you leave employment. Contact the appropriate plan administrator to initiate the rollover. If you use funds from the Choice Plan, you need to complete the Payment Agreement (Form 116), PERSI Rollover Verification (form IVa) and the Choice Plan Request for Distribution/ Rollover (Form V).

## **Can I use Choice Plan money to purchase service in the Base Plan?**

Yes. You must complete Purchase of Service paperwork within 90 days of your retirement and then upon your retirement, complete a PERSI Choice Plan Request for Distribution/ Rollover,

choosing Option A – Purchase of Service. Please contact your member service representative for information on how to use your Choice Plan to purchase service.

## **Can I leave my money in the Choice Plan after I quit work or retire?**

Yes. If your account balance is over \$200 at the time you retire, you may leave the money in your account until a later date. Your account will be charged \$2.50 per month for record keeping charges beginning the month following 90 days from the date of your termination. These fees are considered nominal and are much less than most IRAs charge. When you turn age 70 1/2, the IRS mandates that you begin receiving Required Minimum Distributions.

## **I want to contribute to the Choice Plan, but I want my money to be safe. What should I do?**

The 401(k) does offer several conservative funds. We cannot offer financial advice, so you should read the materials in the enrollment kit or review the fund summary sheets on our website. You may also call ETI at 1-800-453-0321 for free financial information.

## **Why is the PERSI Total Return Fund (TRF) the 401(k) default instead of a conservative fund?**

Think of your 401(k) as just one small piece of your retirement savings and your PERSI Base Plan and Social Security as the other larger pieces. If your Base Plan and Social Security provide you about 70 - 80% of what you need in retirement, your other investments are only 20 - 30% of your retirement savings. You can be more aggressive with these funds because of the stability of the rest.

Of course, if markets were way up, people would be asking why the default is not more aggressive instead. But, PERSI does NOT try to time the markets. We are in this for the long haul, with a 60+ year time horizon. Of course there will be market fluctuations, and that is to be expected, but historically the stock market has averaged about 10%.

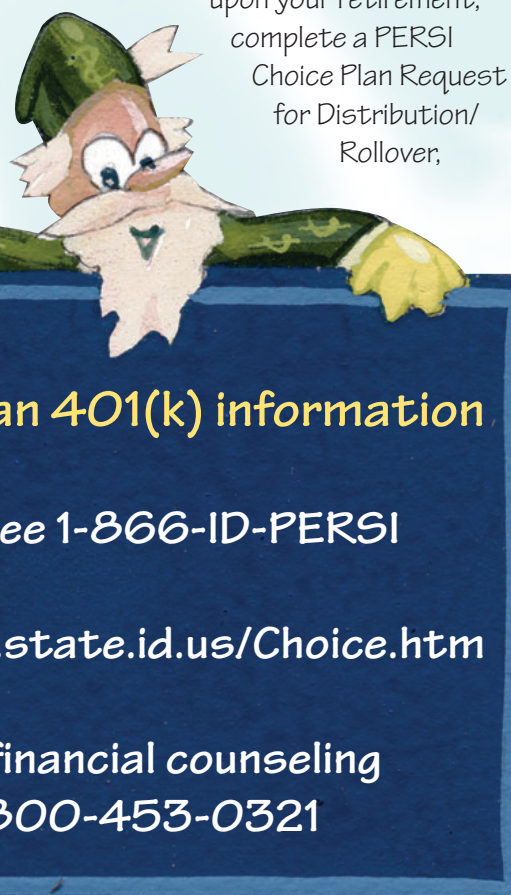
Of the eleven Choice Plan investment options, the TRF is considered fairly conservative. The TRF (with some \$6 billion in assets) is extremely well diversified among US and international stocks, large cap to small cap funds and more to ensure as little risk as possible. The excess earnings from the Total Return Fund is where Gain Sharing and the 401(k) came from in the first place.

One other bonus for being in the TRF: you pay no investment fees. While the management fees of the other funds in the 401(k) are very low, for the TRF you pay no such fees whatsoever.

Other investment options are available including conservative funds such as the SEI Stable Value Fund and the Mellon Aggregate Bond Index Fund. You may transfer your money to these funds at any time.

## **I've lost my PIN number. Will you remind me what it is?**

PERSI does not have your Choice Plan PIN number, and for your own protection, we cannot obtain it for you under any circumstances. If you have lost your PIN, you may request a reminder letter from the Choice Plan Recordkeeper, Mellon HR Solutions, via the Website or toll-free number. The reminder will be mailed to you within three business days. ◆



# PERSI Choice Plan 401(k) makes some fund changes

## Vanguard Growth & Income Fund – Change of Share Type means lower fees for you

Soon, one of the investment options in the PERSI Choice Plan 401(k) will have lower fees. On August 1, 2003, funds invested in Vanguard Growth and Income Fund will convert from Investor-Class Shares to Admiral-Class Shares.

If you are in this fund, this will not change the nature of your investment. The new fund's holdings mirror those of the previous fund. However, Admiral-Class Shares offer an expense ratio 0.11% lower than the Investor-Class Shares so more of your money remains invested and less goes to paying fees. The expense ratio is the fee Vanguard charges to manage the fund, and it is subtracted before earnings are posted to individual accounts. (All PERSI Choice Plan funds have low asset management fees - see Third Quarter 2002 **PERSpectives**.)

At the time of conversion, the total value of your "old" Investor-Class Shares will equal the total value of your "new" Admiral-Class Shares, although the actual number of shares owned may be different due to share price differences. The new ticker symbol is VGIA.

If you have questions, call toll-free 1-866-ID-PERSI (1-866-437-3774). ♦

## T. Rowe Price replaces ING Small Cap Fund Option

The T. Rowe Price Small Cap Stock Fund (OTCFX) will replace the ING Small Cap Fund in the Choice Plan 401(k) on August 1, 2003. The change is being made because ING's fund style and ongoing performance have not met plan expectations.

The new no-load T. Rowe Price Small Cap Fund seeks long-term growth of capital by investing primarily in the common stocks of small companies. It tempers the generally higher risk of small-company securities by investing in both growth- and value-oriented stocks.

### Fund Replacement Process

The new fund was selected by PERSI's in-house investment team. The decision was based on such factors as fund performance compared to benchmark, style consistency, investment staff stability, management fees and relevant portfolio data.

### Fund Transfer Process

Any assets you have in the ING fund will automatically map to the new fund on or about July 31, 2003. You need take no action, but if do not wish your ING funds to be transferred to the T. Rowe fund, you may move them to any of the 401(k)'s other ten funds by calling toll-free 1-866-ID-PERSI or visiting [www.persi.state.id.us/choice.htm](http://www.persi.state.id.us/choice.htm). Have your Social Security Number and PIN handy for quick account access. ♦

## \$100,000 death benefit extended to all PERSI-covered police officers and firefighters

Legislation passed this year (SB 1050) revised the public safety officer \$100,000 death benefit program to include it as a benefit under PERSI rather than through the State Board of Examiners.

Effective July 1, 2003, all PERSI police officers (Class 2) and firefighter members (Class 2 and D) and FRF firefighters (Class A and B) will be eligible for the benefit from PERSI.

To fund this shift in benefits, the employer contribution rate for all PERSI police officer and firefighter employees will increase 0.10%. The employee contribution rate will not change. ♦

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**PERSpectives**

Public Employee Retirement System of Idaho

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